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USSR: Implications of Higher Arms Export Prices to LDCs

An Intelligence Assessment

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*ER 80-10212
April 1980*

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USSR: Implications of Higher Arms Export Prices to LDCs

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An Intelligence Assessment

*Research for this report was completed
on 8 February 1980.*

The authors of this paper are [redacted]
[redacted] International Trade and Services
Division, Office of Economic Research. It has been
coordinated with the Office of Strategic Research and
the Resources and Installations Division, Defense
Intelligence Agency. Comments and queries are
welcome and should be directed to the Chief, Trade
and Aid Branch, OER, [redacted]

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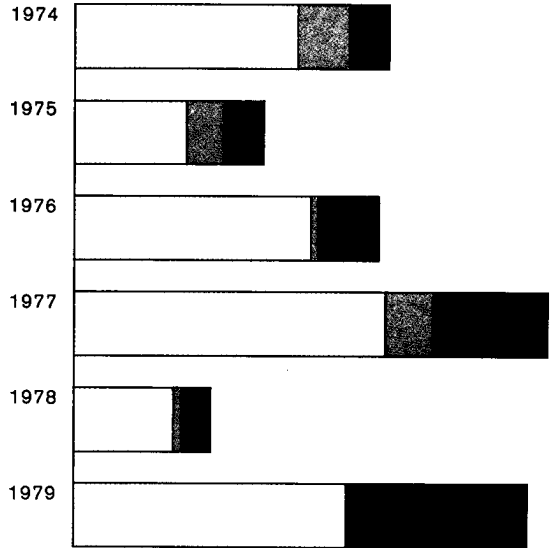
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Figure 1

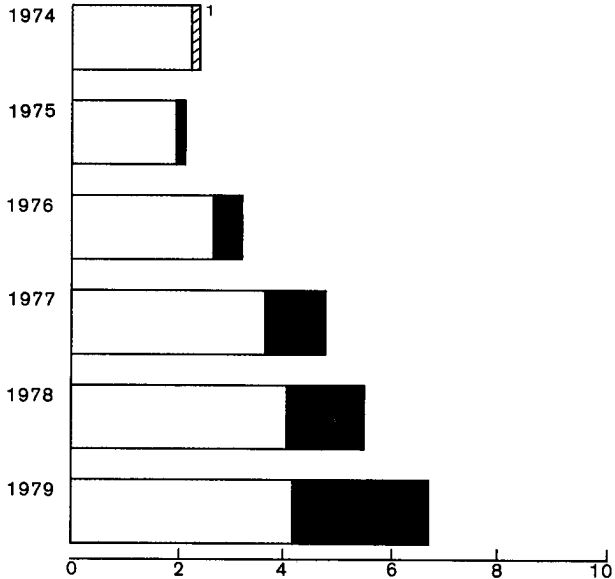
**USSR-LDC Arms Transactions:
Effect of New Information on Earlier Valuation**

Billion US \$

Sales



Deliveries



¹ Reflects a slight decrease in the value of deliveries resulting from the change in the price valuation.

Old estimate
Added by new volume figures
Added by new price estimates

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**USSR: Implications of
Higher Arms Export Prices
to LDCs**

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Key Judgments

[redacted] Soviet
ruble export prices for military equipment increased about 70 percent
between 1973 and 1979. Because of changes in the official ruble/dollar
exchange rate during that period, the equivalent dollar prices for the Soviet
equipment also increased, by about 100 percent. [redacted]

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Use of the new prices [redacted]
[redacted] has raised our estimate of the value of Soviet military sales to
the LDCs during 1974-79 to \$34 billion. Our earlier estimate for the period
was \$23 billion, or \$26 billion if the new information on volume were taken
into account. The estimated value of deliveries rose to \$24 billion, from \$19
billion. [redacted]

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Exports in 1979, totaling about \$6.7 billion, and payments due on earlier
arms deliveries contributed to at least \$4 billion of hard currency received by
Moscow in 1979 as payment for arms provided LDCs—about 15 percent of
Soviet hard currency earnings in 1979. [redacted]

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The largest change in Soviet export prices between 1973 and 1979 was for
naval craft and ground equipment; the smallest for jet aircraft and missile
launchers. [redacted]

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The new prices bring Soviet charges for arms exports within the range of
prices charged for similar equipment by Western countries. The new prices
also are close to the prices that US firms probably would have to charge for
the same equipment if it were manufactured in this country. [redacted]

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Even though Moscow apparently is quoting higher prices to all its clients, it
continues to make politically based concessions to select customers in the
form of discounts and extended repayment periods. [redacted]

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Contents

	<i>Page</i>
Key Judgments	iii
Revised Soviet Arms Export Prices	1
What the New Prices Mean	1

25X1

Figures

1.	USSR-LDC Arms Transactions: Effect of New Information on Earlier Valuation	ii
2.	USSR: Arms Sales and Deliveries to LDCs, Current and Constant Dollar Costs Compared	2

Tables

1.	USSR: Ruble Prices of Arms Exports	1
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USSR: Implications of Higher Arms Export Prices to LDCs

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Revised Soviet Arms Export Prices

con-
firm earlier scattered reports of sizable increases in Soviet arms export prices since 1973.¹ The Kremlin's decision in the mid-1970s to raise its charges for arms offered to LDCs was influenced by the availability of Arab oil wealth to most of Moscow's major arms buyers and the fast-growing and widespread acceptance of Soviet arms by LDCs because of Moscow's willingness to supply sophisticated weapons on short notice.

The ruble prices for Soviet military equipment, are on the average 70 percent above the old prices; when converted to US dollars, by use of average annual ruble/dollar exchange rates, they are about 100 percent higher. Some of the increase reflects more complete information on Soviet military trade items and prices, as well as genuine improvements in the quality of the Soviet weapons. As shown in table 1, the largest price increases for weapon systems occurred for naval craft and ground equipment, the smallest for jet fighters—the Soviet's biggest export ticket item—and missile launchers.

What the New Information Means

Use of the new information raises our earlier figure for the aggregate value of Soviet-LDC arms transactions in 1974 to 1979 to \$34 billion. Our earlier estimate for the period was \$23 billion, or \$26 billion. As for aggregate Soviet arms deliveries in 1974 to 1979, the price revisions raise the estimate to more than \$24 billion, from \$19 billion (no adjustments were made in volume).

¹ Soviet trade prices are strongly influenced by political and world market conditions and do not necessarily reflect the actual costs of producing military goods in the USSR. Therefore, trends in Soviet arms exports charges should not be equated with Soviet domestic and military production costs.

Table 1

Index 1977 = 100

USSR: Ruble Prices of Arms Exports

Weapon systems	1974	1975	1976	1977	1978	1979
Jet fighter aircraft	73.6	82.4	91.2	100.0	108.8	116.6
Ground armaments	66.4	77.6	88.8	100.0	111.2	122.4
Naval ships	52.6	68.4	84.2	100.0	115.8	131.6
Missile launchers	85.9	90.6	95.3	100.0	104.7	109.4
Average, all equipment	68.0	78.6	89.3	100.0	110.7	121.4

If put in real terms—that is, in constant 1973 dollars (prior to the sharp acceleration of prices)—sales for the six-year period would be about \$23 billion, or \$4 billion a year, which is about twice the annual average for 1970 to 1973. The constant dollar series also shows that after peaking in 1977, sales failed to regain their earlier vigor, and deliveries leveled off (see figure 2).

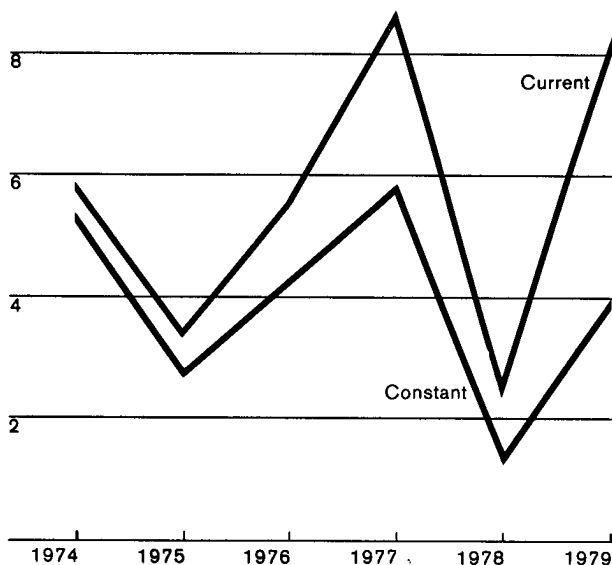
the value of Soviet military sales to LDCs would have been roughly one-third more if the same goods had been manufactured and sold by US firms. by the late 1970s, Soviet prices for many major export items had risen to—and in some instances above—US cost levels. our estimates of Soviet arms exports now approximate the value of Soviet exports based on US costs. In 1977, for example, Soviet deliveries valued at current Soviet trade prices come to \$4.7 billion, compared with \$4.2 billion when valued at US costs.

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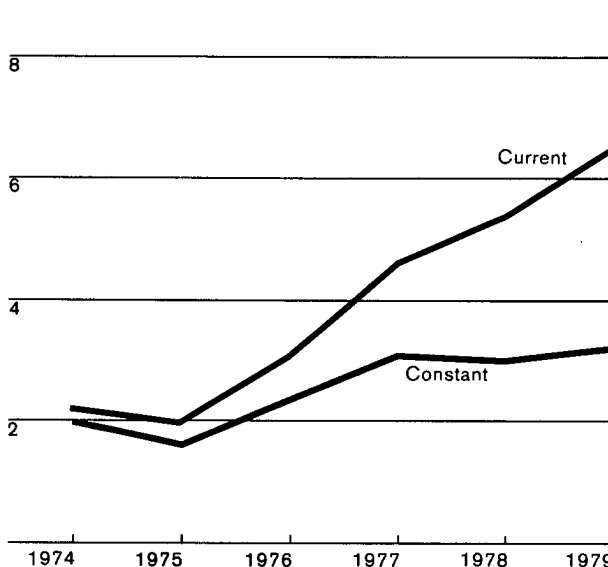
Figure 2

USSR: Arms Sales and Deliveries to LDCs, Current and Constant Dollar Costs Compared

Sales
Billion US \$



Deliveries
Billion US \$



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We also note that the new Soviet export prices approximate the export prices for a number of similar major military end items produced in the West.

Soviet fighters and medium tanks are competitively priced with equipment offered by West European and US manufacturers.

In view of the rise in Soviet export prices for military items, Moscow's share of the LDC arms market is roughly the same whether valued in actual prices charged by the Soviets or in estimated prices that might be charged if the US manufactured and exported the same equipment. The USSR, which ranks a strong second behind the United States in arms sales to LDCs, had one-fourth of the market in 1974 to 1979. The new estimates raise the value of Soviet arms

sales to LDCs (at actual prices) to about 55 percent of US sales in 1974 to 1979, compared with previous estimates of 40 percent. If military-related construction, logistical support, and technical assistance were excluded from US sales (not accounted for in Soviet sales), the value of the Soviet arms program would be raised to at least 85 percent of US sales for the period.

Ever since the initial increases in world oil prices in 1973/74, the USSR has taken advantage of the improved financial positions of its own oil-rich clients and those other arms buyers that receive aid from OPEC. In addition to charging higher prices, Moscow

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has required hard currency payments from almost all its arms buyers, resulting in hard currency earnings in 1979 of at least \$4 billion—about 15 percent of Soviet hard currency earnings. These earnings—up from \$2 billion to \$3 billion in each of the previous two years—were derived mainly from the cash portion of the \$6.7 billion of arms delivered in 1979 (especially to Algeria, Iraq, and Libya), as well as from payments due on equipment delivered earlier under credit by less affluent clients. [REDACTED]

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Moscow apparently has charged the higher list prices for sales to all LDC arms customers, making price and repayment concessions to politically important clients. These politically-based concessions generally take the form of large discounts from the list price, especially for vintage hardware. While they apply less frequently to advanced weapons—such as T-72 tanks, IL-76 jet transports, and MI-24 Hind helicopters—Moscow allows some purchasers of these items longer repayment periods (usually eight to 10 years) and below market interest rates (as low as 2 percent). [REDACTED]

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